



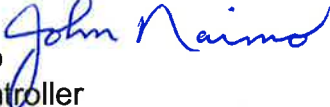
JOHN NAIMO
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

February 19, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW – SHERIFF'S
DEPARTMENT – FISCAL YEAR 2013-14**

In October 2013, your Board directed the Chief Executive Office (CEO) to develop a schedule of recommended audits (Attachment III) for all departments that receive Public Safety Realignment Act (AB109) expenditure reimbursements. The Sheriff's Department (Sheriff's or Department) was recommended, per our attached audit schedule, as one of the first department's for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$185.5 million is significantly higher than most departments' AB109 budgets.

We completed a review of the Sheriff's AB109 expenditure reimbursement requests for the second quarter (October to December 2013) of FY 2013-14, including an evaluation of the Department's internal controls over their AB109 fiscal operations. Our review identified that the Department should include overhead and should revise their salary cost calculations for their claimed AB109 expenditures. For example, the Sheriff's requested reimbursement of \$51.9 million for the second quarter. However, we noted that the Department should have requested \$52.7 million. The under-reported amount is due to the Department excluding overhead costs of \$800,000. Details of our findings and recommendations are included in Attachment I.

We discussed the results of our review with Sheriff's management. The Department's attached response (Attachment II) indicates general agreement with our findings and recommendations.

The Department's response also indicates that they are reimbursed for custody related costs (which account for approximately 93% of the claimed costs for the period reviewed) at a rate lower than the Auditor-Controller's (A-C) approved rates. However, the CEO directed the Department to bill for custody related costs at the current State-approved rate in order to be consistent with reimbursement from other State programs. As a result, while the A-C's approved rates assist management in identifying budget/funding issues, we did not recommend use of the A-C approved rates for AB109 reimbursement purposes.

We thank Sheriff's management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:MP

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Jim McDonnell, Sheriff
Public Information Office
Audit Committee

**SHERIFF'S DEPARTMENT
PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW**

Background and Scope

The State establishes an annual amount of Public Safety Realignment Act (AB109 or Program) funding to the County. The County is required to use the Program's funding for services directed toward designated incarcerated individuals and post-prison release populations, such as certain categories of State parolees. AB109 transferred community reintegration and supervision responsibility for these parolees from the State to the County. The State provides funding on a monthly basis to the Auditor-Controller (A-C) who holds these funds in trust, and the Chief Executive Office (CEO) establishes annual AB109 funding budgets in consultation with each department, subject to Board of Supervisors' (Board) approval.

The CEO and A-C require departments to submit expenditure claims with their AB109 costs (i.e., salaries, employee benefits, applicable overhead rates, etc.) on a quarterly basis. The CEO and A-C then reimburse each department from the trust account up to their budget.

In October 2013, the Board directed the CEO to develop a schedule of recommended audits for all departments that receive AB109 expenditure reimbursements. The Sheriff's Department (Sheriff's or Department) was recommended, per our attached audit schedule (Attachment III), as one of the first department's for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$185.5 million is significantly higher than most departments' AB109 budgets.

We reviewed the Sheriff's second quarter (October to December 2013) AB109 claimed expenditures for FY 2013-14, totaling approximately \$51.9 million, to ensure they were accurate, complete, and were used for AB109 activities/functions. We also evaluated the adequacy of their internal controls. Our review indicates that the Sheriff's needs to improve the overhead and salary cost calculations for their claimed AB109 expenditures. Below are the detailed findings and recommendations for improvement.

Reimbursement of Support Costs

The Sheriff's reported salary costs for custody operations account for 93% of their total AB109 claim. The remaining 7% is comprised of three support units/bureaus that perform AB109 functions (e.g., parole absconder location, inmate education, etc.). Based on our review, the Sheriff's accurately claimed and reported AB109 expenditures related to their custody operations. Specifically, the Department claimed costs using a State-approved billing rate for the number of inmates/days, as directed by the CEO in order to be consistent with reimbursement from other State programs. However, we noted issues with the Department's claimed costs for the three support units/bureaus.

Overhead Costs

We reviewed the Sheriff's claimed expenditures and noted that the Department did not add applicable overhead. As a result, the Sheriff's under-reported their total AB109 costs by approximately \$800,000, reporting \$51.9 million even though they should have claimed \$52.7 million. At the time of our review, this did not impact the amount the Sheriff's was reimbursed since the Department's AB109 expenditures exceeded their funding allocation. However, subsequent to our review, the Sheriff's submitted a claim adjustment that included overhead, and the Board approved additional reimbursements for expenditures that exceeded the Sheriff's original funding allocation.

Sheriff's management should ensure that staff include all applicable overhead in their expenditure claims going forward.

Recommendation

- 1. Sheriff's Department management ensure that staff include all applicable overhead in their expenditure claims.**

Direct Salaries

We reviewed the salary costs for 20 employees, totaling approximately \$626,000, from the three support units/bureaus and noted that the Department over-claimed the salary costs for four employees by approximately \$1,200. The over-claimed amount is due to the Department incorrectly calculating partial monthly salary costs for a small number of employees who transferred back to their original unit of assignment after being loaned to assist with the AB109 programs/populations.

As mentioned, the over-claimed costs did not impact the amount the Sheriff's was reimbursed at the time of our review since the Department's annual AB109 expenditures exceeded their funding allocation. However, subsequent to our review, the Sheriff's submitted a claim adjustment, and the Board approved additional reimbursements for expenditures that exceeded the Sheriff's funding allocation.

Sheriff's management should ensure that staff accurately calculate and report their direct AB109 salary costs going forward.

Recommendation

- 2. Sheriff's Department management ensure that staff accurately calculate and report their direct AB109 salary costs.**



JIM McDONNELL, SHERIFF

County of Los Angeles
Sheriff's Department Headquarters
4700 Ramona Boulevard
Monterey Park, California 91754-2169



December 5, 2014

John Naimo, Auditor-Controller
Department of Auditor-Controller
County of Los Angeles
525 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Mr. Naimo:

**RESPONSE TO THE LOS ANGELES COUNTY AUDITOR-CONTROLLER'S
FISCAL REVIEW OF THE LOS ANGELES COUNTY SHERIFF'S DEPARTMENT'S
PUBLIC SAFETY REALIGNMENT ACT (AB109)
FISCAL YEAR (FY) 2013-14 CLAIMS**

Since the inception of AB109 in October 2011, the Los Angeles County Sheriff's Department (Department) has routinely submitted quarterly claims to the Chief Executive Office (CEO) and the Los Angeles County Auditor-Controller (Auditor) for reimbursement of expenses related to housing non-violent, non-sexual, non-serious (N3) inmates and parole violators in our jails. To date, all claims for direct costs have been approved and paid.

The Department's AB109 related costs significantly exceed the CEO's annual funding allocation. As an example, the Department is reimbursed at a bed rate of \$77.17 per day while the Auditor's approved daily rates for Fiscal Year (FY) 2012-13 were \$119.86 for male inmates and \$106.36 for female inmates. Inmates in the jail hospital ward could be billed at \$1,593.91 per day, but that cost was not to be included per the CEO. The variance in bed rates is important because there are over 5,000 N3s and parole violators in custody on a monthly basis that are being billed solely at the flat daily rate of \$77.17 per day as part of the quarterly AB109 claim.

In October 2013, the Board of Supervisors directed the CEO to develop a schedule to audit those departments which received AB109 funding. The Department was one of the first to be audited since the FY 2013-14 AB109 funding of \$185.5 million represents a significant portion of the County's total allocation.

A Tradition of Service

Mr. Naimo

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December 5, 2014

As a result, the Auditor reviewed the Department's AB109 claim for the second quarter of FY 2013-14. The Auditor also evaluated the Department's internal controls.

The second quarter AB109 claim that was reviewed by the Auditor totaled \$51.9 million in costs. The Custody portion of the claim was 93 percent or \$48.5 million while the remaining 7 percent of \$3.4 million was for the Parole Compliance and Valdivia teams and the Education Based Incarceration program. The audit team noted that overhead rates were not applied to the employees assigned to the three programs noted above, which when calculated against the \$3.4 million, resulted in an under-claimed amount of \$800,000. However, as noted in the audit report, this under-claimed amount did not impact the funding received by the Department since AB109 expenditures significantly exceed the Department's AB109 allocation from the CEO.

In conclusion, the Department agrees that the accurate reporting of cost information ensures the integrity of ongoing program cost benefit assessments. Subsequently, the Department calculated the overhead costs on all four FY 2013-14 quarterly claims upon notification of the audit findings. The revised claims were approved by the CEO and paid by the Auditor. Attached is the Department's response to the Auditor's AB109 Fiscal Review recommendations.

If there are additional questions regarding the Department's response, please contact Director Rick Cavataio, Financial Programs Bureau, at (323) 526-5144.

Sincerely,

JIM McDONNELL, SHERIFF

A handwritten signature in blue ink, appearing to read "Glen Dragovich", with a small "Feb" written to the right.

GLEN DRAGOVICH, DIVISION DIRECTOR
ADMINISTRATIVE AND TRAINING BUREAU

Mr. Naimo

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December 5, 2014

GD:CM:RC:yc
(Administrative and Training Division-Financial Programs Bureau)

Attachment

c: Conrad Meredith, Asst. Division Director, Administrative and Training Division
Rick Cavataio, Director, Financial Programs Bureau
Chrono

ATTACHMENT

**LOS ANGELES COUNTY AUDITOR-CONTROLLER'S PUBLIC SAFETY
REALIGNMENT ACT (AB109) FISCAL REVIEW
OF THE
LOS ANGELES COUNTY SHERIFF'S DEPARTMENT
FISCAL YEAR 2013-14
RECOMMENDATIONS AND RESPONSES**

OVERHEAD COSTS

RECOMMENDATION 1:

Sheriff's Department's management ensure that staff include all applicable overhead in their expenditure claims.

Sheriff's Response to Recommendation 1: Agree

Immediately upon receiving notification from the Los Angeles County Auditor-Controller's (Auditor) Audit team that the AB109 Fiscal Year (FY) 2013-14 second quarter claim was not in compliance with the guidelines regarding overhead costs, the Department adjusted the FY 2013-14 third quarter claim to comply with the recommendation and the Chief Executive Office and Auditor approved the revised documents. The first, second, and fourth quarter claims were also subsequently adjusted and approved by both Departments.

DIRECT SALARIES

RECOMMENDATION 2:

Sheriff's Department's management ensure that staff accurately calculate and report their direct AB109 salary costs.

Sheriff's Response to Recommendation 2: Agree

The Department's Special Accounts Unit's staff will routinely review the employee rosters of the units that have AB109 budgeted items. When an employee works only a partial month in an AB109 program, the team will conduct a more thorough search of both paper and on-line documents in the electronic Human Resources (eHR) system to ensure that the dates are consistent with the actual movement of the employee between the AB109 unit and their original unit of assignment. This will ensure that partial month salaries are calculated correctly and supported in eHR.



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles
CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

February 25, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in blue ink, appearing to read "W. T. Fujioka".

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**PUBLIC SAFETY REALIGNMENT: FIRST QUARTERLY REPORT ON BUDGET
AND PROGRAM PERFORMANCE MEASURES (ITEM 94-B, AGENDA OF
OCTOBER 8, 2013)**

On October 8, 2013, the Board of Supervisors directed the Chief Executive Officer to initiate quarterly budget and performance reports for the Public Safety Realignment Act (AB109), including:

- a) A summary of revenue and expenditures;
- b) Narratives to explain the variances between expenditures and budget;
- c) A comprehensive list of items that have been funded with one-time revenue, but require ongoing funding commitments; and
- d) Updates on programmatic priorities and achievements of stated outcomes.

In addition, the Board requested the development of a fiscal audit schedule and options to evaluate the AB109 programs and services delivered by County departments and community-based organizations.

REVENUE AND EXPENDITURES

The State's Fiscal Year (FY) 2013-14 Budget allocated \$338,130,000 to the County for AB109 programs and services. As of January 31, 2014, the County has received \$156,968,000 or 46 percent of the budget allocation.

"To Enrich Lives Through Effective And Caring Service"

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The Auditor-Controller (A-C) established trust accounts specifically for the remittance of AB109 funds from the State. Although funds are allocated to County departments, these funds remain in the trust accounts and are not distributed to the departments until the Chief Executive Office (CEO) and A-C approve quarterly claims for reimbursement of AB109 related costs. Claims are submitted during the month following the close of each quarter. Given the State's AB109 remittance schedule runs from a September through August calendar, compared to the County's fiscal calendar, a cap has been placed on the quarterly claims for cash-flow purposes. Any claims exceeding the quarterly cap will need to be absorbed by the department until the end of the FY; whereupon, any unreimbursed claims will be reconciled up to each department's annual AB109 budget allocation. Should a department's AB109 claims result in a fiscal year-end deficit, the CEO may recommend the Board utilize any remaining allocations from other departments or tap into the AB109 Reserve to make the department whole; otherwise, the department will absorb those AB109 costs within its regular budget.

For FY 2013-14 County departments have been reimbursed \$136,420,000 or 40 percent of the budget for AB109 claims submitted through January 31, 2014 (Attachment I). The second quarter claims for several departments are still pending CEO and A-C review prior to disbursement.

As reflected in Attachment I, the Probation Department (Probation) and Sheriff's Department (Sheriff) have exceeded their respective quarterly caps by a combined \$8,094,000. We anticipate Probation and Sheriff will end the FY with AB109 deficits; however, there may be savings in the other departments that may be used to mitigate AB109's impact on their regular budget.

PROGRAM DIRECTORY AND PERFORMANCE MEASURES

A comprehensive directory of AB109 programs, funded with ongoing and one-time funds, has been developed to report on each department's quarterly expenditures and progress toward meeting stated annual performance targets. The current quarterly report reflects the department's performance status as of January 1, 2014, and the first quarter reimbursed claims (Attachment II).

FISCAL AUDIT SCHEDULE

The A-C has concluded a preliminary review of each department, including interviewing department managers and staff and reviewing expenditure reports, claims, and supporting documentation. The A-C subsequently developed a list of five factors to evaluate the risk presented by each department: 1) the amount of budgeted AB109

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funding; 2) each department's internal controls and methodology for tracking and reporting expenditures; 3) the type of service provided; 4) the materiality of prior audit findings; and 5) the types of AB109 related expenditures incurred by each department.

Based on these audit factors, the A-C proposes the following fiscal audit schedule:

FY 2013-14	
January to March 2014	April to Jun 2014
Relative High Risk Departments: <ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	Relative Lower Risk Departments: <ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board (CCJCC and ISAB) • Fire • Health Services • Public Defender • Public Health
FY 2014-15*	
Quarterly Audits	Annual Audit
<ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	<ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board • Fire • Health Services • Public Defender • Public Health

* The audit schedule for each department is subject to FY 2013-14 audit findings.

INDEPENDENT PROGRAM EVALUATIONS

The Countywide Criminal Justice Coordinating Committee (CCJCC), in consultation with the CEO, is developing a Request for Statement of Qualifications (RFSQ) for criminal justice research and evaluation services. The RFSQ will be used to establish a Master Agreement list of vendors to provide independent expert consultant services. The Master Agreement list will be made available to all County departments and partner agencies to evaluate both AB109 programs and other criminal justice related programs.

Each Supervisor
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We had anticipated presenting the Master Agreement for Board approval in February 2014; however, some complications were encountered as to how departments would administratively access a CCJCC Master Agreement. These contract oversight issues are currently under review by the A-C and County Counsel. We will keep your Board apprised as we make progress toward releasing the RFSQ.

Should you have any questions, please have a member of your staff contact either Georgia Mattera, Public Safety, at (213) 893-2374 or David Turla, Public Safety, at (213) 974-1178.

WTF:GAM:SW
DT:lm

c: Executive Office, Board of Supervisors
County Counsel
District Attorney
Sheriff
Alternate Public Defender
Auditor-Controller
Fire
Health Services
Mental Health
Public Defender
Public Health
Probation